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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

May 4, 2001

BY HAND DELIVERY

The Honorable Robert Rider
Chairman, Board of Governors
U.S. Postal Service
475 L'Enfant Plaza, S.W.
Washington, DC 20260-0300

Re: Postal Rate and Fee Changes, 2000
Postal Rate Commission Docket No. R2000-1

Dear Chairman Rider:

We strongly urge you not to increase postage rates again only a few months after this January's significant rate hike. It is apparent, though, that you remain concerned about the Commission's treatment of various components of the revenue requirement and are actively considering modification. In this regard, we refer you to our comments submitted to the Postal Rate Commission during reconsideration, in conjunction with DMA et al, in which we explained why the Commission's treatment of the contingency, supervisor costs and the field reserve was appropriate. We further encourage you to keep in mind the commitment that the Postal Service made to limit the rate increase for Periodicals to single digits and the hard work that the Postal Service and the Periodicals industry jointly put forth to achieve this goal.

In the event, however, that the Governors decide to modify the Commission's rate recommendations and increase the revenue requirement to reflect the Service's proposed contingency, supervisor costs, and field reserve, we urge you to ensure that additions to the revenue requirement are allocated to classes of mail in a fair manner.

With regard to the contingency and supervisor costs, while the Record reflected differences of opinion as to the correct size of the cost pools, there was no disagreement among the parties as to the method that should be used to allocate these types of costs. In the case of the field reserve, however, there have been several opinions expressed as to the proper allocation of the costs to classes of mail. As the Periodicals Coalition stated in comments to the Postal

Rate Commission during reconsideration, if the field reserve is included in the Test Year revenue requirement, we believe these costs should be treated as institutional costs. Periodicals Mailers Comments at 3, fn 3. As we stated in those comments, "How can [the Postal Service] attribute an expenditure that, according to the testimony relied upon by the Postal Service, might be used to cover shortfalls in forecast productivity increases, or for the information platform infrastructure, or perhaps for the advertising of new product introductions, or for other undefined and unforeseeable purposes?" The uncertain purposes to which the Postal Service will use the field reserve, if at all, certainly dictate treating these costs as institutional.

Alternative allocations that have been discussed include allocation in proportion to all costs or allocation in proportion to breakthrough productivity initiative (BPI) cost reductions. Tr. 35/16784. If you decide to modify the Commission's Decision to include the field reserve and if you, for some reason, find an allocation to institutional costs unacceptable, we urge you to allocate the field reserve in proportion to all costs, rather than just in proportion to Test Year BPI cost reductions. As USPS CFO Strasser testified, the Postal Service does not yet know the purpose to which it will ultimately put the field reserve:

...if we don't need [the field reserve] to cover the breakthrough productivity, and if the field achieves the reduction in the work hours that we have targeted to achieve with this very massive effort, we will spend it on the infrastructure for the information platform, the advertising for product introductions, and the mail transport equipment that we believe we need for next fall's mailing season.

Tr. 46A/20297. Because no one knows how the field reserve will actually be spent, it would be inappropriate to distribute it only in proportion to the savings from the BPI cost reduction initiative. Furthermore, even if the field reserve was in fact allocated to the field because work hour reduction targets were not achieved, there is no way to know (1) why these targets were not met and (2) therefore, upon which classes of mail the field reserve would actually be spent. The Commission appropriately articulated this point in its Opinion and Further Recommended Decision:

As a practical matter as the test year unfolds, it is difficult to conceive - and the record sheds no light on the subject - how the Postal Service could fairly and accurately measure whether some or all of these savings had been realized or not. Total mail processing costs may be higher or lower than projected for myriad reasons. Realistically, only well after-the-fact could that assessment be made.

PRC Op. and Further Rec. Dec. at 27. Finally, witness Patelunas, the Postal Service's own revenue requirement witness, implied that even if the Postal

Service did allocate the field reserve in proportion to BPI cost savings, the result should be similar to an across-the-board allocation; "[i]t is anticipated that because these Operations cost reductions are primarily for mail processing and window service clerks and mailhandlers, the impact on any particular class, subclass or special service would be relatively minor." Tr. 46D/21593. In other words, an approach consistent with Mr. Patelunas' statements should ensure that no class, subclass or special service would be burdened with a disproportionate share of the field reserve. If, therefore, you feel compelled to include the field reserve as part of Postal Service attributable costs, we urge you to allocate the field reserve in proportion to all costs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J. Cregan", with a long horizontal flourish extending to the right.

James R. Cregan
Executive Vice President
Magazine Publishers of America

cc: Postmaster General Henderson
Deputy Postmaster General Nolan
Chief Operating Officer Potter
Chief Financial Officer Strasser
Vice President Bizzotto
Secretary, Postal Rate Commission
All Parties, Docket No. R2000-1